

(4) The lease payments paid to the primarily religious organization do not exceed the fair market rent of the structure before any rehabilitation was completed;

(5) The portion of the costs of any improvements that benefit any unleased portion of the structure will be allocated to, and paid for by, the primarily religious organization;

(6) The primarily religious organization agrees that, if the recipient does not retain the use of the leased premises for wholly secular purposes for the useful life of the improvements, the primarily religious organization will pay an amount equal to the residual value of the improvements to the secular organization, and the secular organization will remit the amount to HUD.

(c) *Assistance to a wholly secular private nonprofit organization established by a primarily religious organization.* (1) A primarily religious organization may establish a wholly secular private nonprofit organization to serve as a recipient. The wholly secular organization may be eligible to receive other forms of assistance available under this part.

(i) The wholly secular organization must agree to provide housing and support services in a manner that is free from religious influences and in accordance with the principles set forth in paragraph (a) of this section.

(ii) The wholly secular organization may enter into a contract with the primarily religious organization to operate the housing or to provide support services. In such a case, the primarily religious organization must agree in the contract to carry out its contractual responsibilities in a manner free from religious influences and in accordance with the principles set forth in paragraph (a) of this section.

(iii) The rehabilitation or new construction grants are subject to the requirements of paragraph (a) of this section.

(2) HUD will not require the primarily religious organization to establish the wholly secular organization before the selection of its application. In such a case, the primarily religious organization may apply on behalf of the wholly secular organization. The application will be reviewed on the basis of

the primarily religious organization's financial responsibility and capacity, and its commitment to provide appropriate resources to the wholly secular organization after formation. Access to the housing site is demonstrated if the primarily religious organization provides a commitment to transfer control of the site to the wholly secular organization after its formation. If such an application is selected for funding, the obligation of funds will be conditioned upon the establishment of a wholly secular organization that meets the definition of private nonprofit organization in § 585.4.

### Subpart F—Applicability of Other Federal Requirements

#### § 585.501 Application of OMB Circulars.

(a) The policies, guidelines and requirements of OMB Circular Nos. A-87 (Cost Principles Applicable to Grants, Contracts and other Agreements with State and Local Governments) and 24 CFR part 85 (Administrative Requirements for Grants and Cooperative Agreements to State, Local and Federally Recognized Indian Tribal Governments) apply to the award, acceptance and use of assistance under the program by applicable entities, and to the remedies for non-compliance, except where inconsistent with the provisions of NAHA, other Federal statutes or this part. 24 CFR part 84 (Grants and Cooperative Agreements with Institutions of Higher Education, Hospitals, and other Nonprofit Organizations), OMB Circular A-122 (Cost Principles Applicable to Grants, Contracts and other Agreements with Nonprofit Institutions), and, as applicable, OMB Circular A-21 (Cost Principles for Educational Institutions) apply to the acceptance and use of assistance by covered organizations, except where inconsistent with the provisions of NAHA, other Federal statutes or this part. Recipients are also subject to the audit requirements of 24 CFR part 44 (Audit Requirements for State and Local Governments) and 24 CFR part 45 (Audit